

Education Report: Unified Funding System: clarifying the parameters for the learner component performance elements

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| To: | Hon Chris Hipkins, Minister of Education | | |
| Date: | 22 April 2022 | Priority: | High |
| Security Level: | In Confidence | METIS No: | 1283887 |
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| Messaging seen by Communications team: | No | Round Robin: | Yes |

Purpose of Report

The purpose of this report is to clarify the parameters for how the Tertiary Education Commission (TEC) will set each tertiary education organisation's (TEO's) performance expectations for the learner component of the unified funding system, following your recent feedback.

Recommendations

The Ministry of Education and the Tertiary Education Commission (TEC) recommend that you:

- a. **note** that you recently provided feedback that you would prefer as the Minister (rather than TEC) to set the priorities for the learner component, in alignment with the Tertiary Education Strategy (TES), on which the performance expectations for TEOs would be based (METIS 1281224 refers)
- b. **discuss** this feedback with the Ministry and TEC to help us ensure it is built into the design of the performance elements from 2024 onwards, including what kinds of priorities you would like to set, how frequently you would like to change the priorities, and how to align the timing of setting priorities with Investment Plan cycles
- c. **agree** to set the following priority for 2023 for the targeted implementation of the performance elements of the learner component:

TEOs improve their organisation's capability to support the unique and varied needs of their vocational education and training (VET) learners, with the aims, over time, of improving their organisation's performance for learners and improving their learners' outcomes. Examples of this include (but are not limited to):

- *a TEO building its capability to understand the needs of its VET learners and to understand and monitor its performance for its learners*
- *a TEO developing, improving, consolidating and/or embedding meaningful strategies and interventions to support VET learners*

- a TEO working with employers to improve employers' capabilities to support VET learners in work-based delivery modes.

Agree / Disagree

- d. **note** that if you agree to this priority, we will formalise your decision in the funding determination for the unified funding system in July, and in the meantime, TEC will communicate your decision to the relevant TEOs and work with them to set performance expectations through their Learner Success Plans (LSPs)
- e. **note** that we have undertaken further work on how we would allocate the learner component in 2023 and manage within the appropriation (METIS 1280928 refers), and we are confident that any small shortfall in the cost of the learner component can be managed within the multi-category appropriation
- f. **forward** this briefing to the Associate Ministers for Education
- g. **agree** that the Ministry of Education release this briefing in full once it has been considered by you, and once the decisions have been communicated to TEOs.

Agree / Disagree



James Campbell
Acting Group Manager
Te Puna Kaupapahere Tertiary Policy
Ministry of Education

22/04/2022



Gillian Dudgeon
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22/04/2022



Hon Chris Hipkins
Minister of Education

1 / 5 / 2022

The proposed priorities are all about the 'how' not the 'what'. We need to go back to the goals in the TES and set out what we expect to change from the learner's perspective and build performance expectations around that. Building capability and strategies is all very well, but what results will that deliver?

Background

1. In February, we sought your agreement to set the following parameters for how the TEC will set each tertiary education organisation's (TEO's) performance expectations for the learner component (METIS 1281224 refers):
 - a. The TEC must set and publish priorities for the learner component in line with Te Tiriti o Waitangi, the Statement of National Education and Learning Priorities and the Tertiary Education Strategy (TES), and other relevant education strategies. The priorities must also be in line with the relevant objectives for the Reform of Vocational Education (RoVE), which are as follows:
 - i. The vocational education system delivers to the needs of all learners, including through strong secondary-tertiary pathways.
 - ii. The vocational education system prioritises traditionally underserved learners (especially Māori, Pacific and disabled learners).
 - b. The TEC must, building on its tools to drive learner success such as Learner Success Plans, use the Investment Plan process to agree measures of success with TEOs that show how TEOs will contribute to meeting the priorities. TEC will select performance expectations that are relevant and tailored to each TEO and the needs of their learner populations.
 - c. The TEC must monitor and report progress against the priorities.
 - d. The TEC must review the priorities and measures of success.
 - e. The TEC must engage with Māori and iwi when identifying priorities and measures of success, and when developing monitoring arrangements. This includes ensuring that TEOs appropriately engage with Māori and iwi as required for Investment Plans.
2. You indicated that you would prefer that the Minister should agree the performance expectations based on the TES and that you supported the proposals in paragraphs 1b-1e. We understand that this means the Minister should set the priorities for the learner component (rather than the performance expectations for individual TEOs), and the priorities should be based on the TES alone.

Setting the priorities for 2024 onwards

3. We would like to discuss this feedback with you to ensure it is built into the design of the performance elements from 2024 onwards. We have identified three key questions we will need to answer to finalise the design:
 - a. what kinds of priorities you might want to set
 - b. how frequently you might want to change the priorities
 - c. how to align the timing of setting priorities with Investment Plan cycles.
4. Our initial advice is below, and we can refine this further for 2024 and onwards following our discussion with you.

This is exactly why they should be based on the TES!

5. The Ministry and TEC agree that priorities will be most effective if they are relatively stable from year to year and if they are focused on systemic change. This is particularly the case for the short and medium term (up to the next five years).
6. This would support TEOs to undertake a deliberate and managed approach to whole-of-organisational change to embed a learner-centric culture and drive sustained improvements in outcomes for learners over time. It would reinforce TEC's focus on learner success through its Ōritetanga Learner Success Framework. It would also recognise that sustained improvements in learner performance take time. We have previously given similar advice (METIS 1257567, 1268057, 1281224 refer).
7. In keeping with our previous advice, we propose an initial focus (up to five years) on capability building. This will be more likely to result in sustained, system-wide improvements that benefit larger numbers of learners. In comparison, more granular priorities focused on specific learner groups may result in shorter-term improvements for targeted groups of learners, but are less likely to drive systemic, sustained change. This level of granularity may be suitable for some TEOs, which TEC can determine in setting individual performance expectations in alignment with your priority.
8. In the medium to long term, it may be useful to focus priorities on specific learner groups or types of provision. By then, the sector would have significantly built its capability to support learners, learners would be more at the centre of TEOs' cultures, and we would expect to have seen some improvements in learner success. At that stage, more targeted priorities could appropriately address outlying instances of poorer system-wide performance.
9. Any changes to priorities would need to be agreed approximately one year in advance of the funding year. For example, priorities for funding from 1 January 2025 would need to be agreed by November 2023. This would enable TEC to develop necessary operational policy and implementation planning, and to include the appropriate information for TEOs in the Plan Gazette notice and in Plan Guidance which are usually published in December (of the year prior to Plans being required) or February (of the year in which Plans are required).
10. Once we discuss this with you, we will then provide you with advice later this year about how this could work from 2024 onwards (after the initial targeted implementation of the performance elements of the learner component (METIS 1281224 refers)).

For the targeted implementation of the performance elements in 2023, we propose that you set priorities that focus on capability building

11. In the meantime, it is important to set a priority for 2023 to enable TEC and TEOs to work together on performance expectations for 2023.
12. You have agreed that the performance elements of the learner component will be implemented in a targeted approach for 2023. This means that for 2023 the performance elements only apply to select TEOs that receive high amounts of learner component funding, with the TEC to determine the TEOs (up to eight).
13. For 2023, we propose you agree that the following one-year priority be set out in the funding determination:

TEOs improve their organisation's capability to support the unique and varied needs of their VET learners, with the aims, over time, of improving their

organisation's performance for learners and improving their learners' outcomes. Examples of this include (but are not limited to):

- *a TEO building its capability to understand the needs of its VET learners and to understand and monitor its performance for its learners*
 - *a TEO developing, improving, consolidating and/or embedding meaningful strategies and interventions to support VET learners*
 - *a TEO working with employers to improve employers' capabilities to support VET learners in work-based delivery modes.*
14. This would be consistent with the TES and with our advice to initially focus performance expectations on capability. It would send a strong signal to the sector about your expectations for the learner component to drive systemic change. It would also enable TEC to agree bespoke performance expectations with individual TEOs that reflect their starting points (recognising that they are at varying stages of organisational maturity), learner populations, and aims.
15. If you agree to this, we will formalise your decision in the funding determination for the unified funding system in July. In the meantime, TEC will communicate your decision to the relevant TEOs and work with them to set performance expectations through their LSPs.

Managing the costs of the learner component

16. In our advice to you and the Minister of Finance about setting UFS rates, we signalled that we were undertaking further work on how we would allocate the learner component in 2023 and manage within the appropriation (METIS 1280928 refers). We explained that the learner component for 2023 will be allocated based on 2021 enrolments, because accurately projecting or committing to learner volumes using current enrolment data would require significant changes that are not possible in 2023. We also noted that appropriated funding for 2023 will be somewhat lower than the amount required to fund 2021 volumes, reflecting lower levels of projected enrolments.
17. Further analysis suggests that the shortfall should be relatively small once additional Budget 2022 funding is taken into account – approximately \$2 million. We expect that a shortfall of this magnitude can be managed within baselines via a transfer to the relevant category of the multi-category appropriation (MCA) as part of the October Baseline Update.
18. Any trade-off with volume would be small within the overall context of the MCA, particularly given the flexibility provided by the level of funding retained on TEC's balance sheet mechanism.

Next steps

19. Once we have received your feedback, the TEC will communicate your decisions to TEOs alongside your related decisions from the February Education Report (METIS 1281224 refers).